

The Influence of GST on the financial performance of women entrepreneurs: A Review

Mamta Jaisiyan*

Associate Professor, Department of Commerce, D.J. College, Baraut, Baghpat, UP, India

Email: mjaisiyan7@gmail.com

Abstract - The Goods and Services Tax (GST) has significantly impacted various sectors of the economy, including women entrepreneurship. This review explores the influence of GST on the financial performance of women entrepreneurs, emphasizing its implications for business operations, profitability, and growth. The study synthesizes findings from secondary data sources, including academic articles, government reports, and industry analyses, to understand the broader impacts of GST on women-led businesses. By examining key aspects such as tax compliance, cost structures, and financial management practices, this review aims to provide a comprehensive overview of how GST policies have shaped the financial landscape for women entrepreneurs. The findings suggest that while GST has introduced opportunities for greater formalization and tax credit benefits, it has also posed challenges related to compliance and increased operational costs.

Keywords: GST, Financial Performance, Women Entrepreneurs, Tax Compliance, Business Growth, Secondary Data Analysis

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1. INTRODUCTION

The advent of the Goods and Services Tax (GST) represents a significant shift in the tax landscape, designed to streamline tax structures and enhance economic efficiency. Introduced to replace a complex system of indirect taxes, GST aims to create a unified tax regime, promote transparency, and improve tax compliance (Pertiwi, 2019). However, the impact of GST extends beyond just simplifying tax procedures; it also affects the financial performance of businesses, including those led by women entrepreneurs.

Women entrepreneurs often face unique challenges in the business environment, including limited access to finance, market access issues, and administrative burdens (Ramaswamy, 2020). The introduction of GST has added a new layer of complexity to these challenges, potentially influencing the financial outcomes for women-led enterprises. This review seeks to understand the specific ways in which GST affects the financial performance of women entrepreneurs, focusing on how it influences their operational efficiency, profitability, and overall business growth.

A. Overview of GST and Its Objectives

The Goods and Services Tax (GST) is a comprehensive indirect tax system designed to replace a myriad of existing taxes on goods and services. Introduced in various countries, GST aims to create a unified tax structure, eliminate tax cascading, and promote economic efficiency by ensuring that taxes are levied

only on the value added at each stage of the supply chain (Rao, 2020). The primary objectives of GST include simplifying the tax structure, enhancing transparency, and broadening the tax base. By consolidating multiple taxes into a single tax, GST seeks to reduce administrative complexities and compliance costs for businesses, while improving the overall efficiency of tax collection (Rana, 2018).

GST operates under a dual tax structure in many countries, where both the central and state governments levy tax on goods and services. This system ensures that the tax burden is shared and collected at multiple levels, contributing to a more equitable distribution of tax revenues (Sharma, 2019). The introduction of GST is also aimed at reducing the distortions in the market caused by disparate tax regimes, fostering a more level playing field for businesses.

B. Importance of GST in the Current Economic Framework

In the current economic framework, GST plays a crucial role in streamlining tax policies and fostering economic growth. By replacing complex and overlapping tax structures, GST simplifies the taxation process, making it more transparent and predictable for businesses (Sharma, 2017). This simplification is particularly beneficial for small and

medium-sized enterprises (SMEs), which often struggle with navigating multiple tax regulations.

GST also promotes the formalization of the economy by encouraging businesses to register and comply with tax regulations. This formalization leads to an increase in tax revenues and enhances the overall tax compliance rate (Yadav, 2017). Additionally, GST provides mechanisms for tax credits on input taxes, which can reduce the effective tax rate on goods and services, ultimately lowering costs for businesses and consumers alike.

The economic benefits of GST extend beyond tax administration. By fostering a more efficient tax system, GST supports economic growth, investment, and job creation. The streamlined tax structure and improved compliance contribute to a more favorable business environment, attracting both domestic and foreign investment (Ramaswamy, 2020).

C. Women Entrepreneurship

Women entrepreneurship refers to the establishment and operation of businesses by women, who often face distinct challenges compared to their male counterparts. Women entrepreneurs contribute significantly to economic development and job creation, yet they encounter unique barriers such as limited access to finance, market entry challenges, and regulatory constraints (Pegu, 2017). Despite these obstacles, women-led businesses have shown remarkable resilience and growth potential.

The role of women entrepreneurs is increasingly recognized as vital for achieving economic diversity and inclusive growth. Women entrepreneurs often bring innovative approaches and unique perspectives to the business landscape, contributing to a more dynamic and varied economic environment (Chandiok, 2016). However, the impact of tax policies such as GST on women-led businesses warrants specific attention, as these policies can have significant implications for their financial performance and overall business operations.

Research indicates that women entrepreneurs may face higher compliance costs and administrative burdens due to their typically smaller business scale and limited resources (Sharma, 2017). Understanding how GST affects these aspects is crucial for identifying the challenges and opportunities that arise from its implementation, and for developing policies that support the growth and sustainability of women-led enterprises.

D. Research Objectives

1. To evaluate the impact of GST on the financial performance of women entrepreneurs, including its effects on cost structures, profitability, and cash flow management.
2. To identify the challenges and opportunities presented by GST for women entrepreneurs, focusing on compliance costs, tax credits, and the overall ease of doing business.

2. LITERATURE REVIEW

A. Theoretical Framework

Understanding the influence of GST on financial performance requires grounding in relevant theoretical frameworks. The **Theory of Taxation** suggests that tax systems should aim for efficiency, fairness, and simplicity (Slemrod & Bakija, 2008). GST aligns with these principles by consolidating multiple taxes into a single tax, thereby simplifying the tax structure and improving compliance. This theory posits that efficient tax systems reduce administrative burdens and distortions in business operations (Yadav, 2017).

Additionally, **Agency Theory** is relevant when considering the administrative and compliance costs associated with GST. According to Agency Theory, the separation of ownership and management can lead to increased costs and inefficiencies if not properly managed (Jensen & Meckling, 1976). For women entrepreneurs, who may often have limited managerial resources, GST compliance can represent a significant administrative burden that impacts financial performance.

Resource-Based Theory also provides insight into how GST affects businesses. This theory emphasizes the importance of a firm's resources and capabilities in achieving competitive advantage (Barney, 1991). Women entrepreneurs with limited resources may struggle more with GST compliance compared to larger firms with more extensive resources, potentially affecting their financial performance and business growth.

B. Previous Research on GST

Previous research highlights the multifaceted impacts of GST on business performance. Studies have documented that GST can lead to increased operational efficiency by reducing tax cascading and improving input tax credits. However, research also indicates that GST implementation can be challenging, particularly for small businesses, due to the complexities of compliance and reporting (Ramaswamy, 2020).

A study by Goolsbee (2000) emphasizes the efficiency gains achieved through GST by simplifying the tax system and reducing hidden taxes. This is supported by evidence that GST can enhance transparency and reduce the tax burden on businesses by allowing for seamless tax credits. However, Sharma (2017) highlight that the transition to GST can be burdensome, with significant compliance costs for businesses, especially those with fewer resources.

C. Women Entrepreneurs and Financial Performance

Research into women entrepreneurs reveals that they often face unique challenges compared to their male counterparts. Women-led businesses typically experience more barriers to accessing capital, networking opportunities, and market access (Brush & Cooper, 2012). These barriers can be exacerbated by tax policies like GST, which may impose additional compliance costs and administrative burdens.

Carter and Shaw (2006) find that women entrepreneurs face distinct financial challenges, including limited financial resources and higher costs associated with regulatory compliance. The introduction of GST adds another layer of complexity to their financial management, potentially impacting their profitability and growth.

Furthermore, a study by Jain and Singh (2018) highlights that women entrepreneurs often struggle with the administrative aspects of tax compliance, which can strain their limited resources. This strain can affect their financial performance by increasing operational costs and reducing overall efficiency.

D. Impact of GST on Small and Medium Enterprises (SMEs)

Small and Medium Enterprises (SMEs) are particularly affected by GST due to their typically limited resources and lower scale of operations. Research shows that GST can lead to both positive and negative outcomes for SMEs. On the positive side, GST can improve transparency and reduce tax cascading, which benefits SMEs by lowering effective tax rates on inputs (Narayan & Sharma, 2020).

However, SMEs often face significant challenges related to GST compliance. The complexity of GST regulations and the costs associated with tax compliance can be particularly burdensome for smaller businesses (Mohan & Kaur, 2019). SMEs may experience higher relative costs for accounting and administrative tasks, which can impact their overall financial performance and growth potential.

A study by Narayan and Sharma (2020) indicates that while GST provides opportunities for tax credits and improved cash flow management, the initial transition period can be difficult for SMEs. The need for specialized accounting systems and the learning curve associated with GST regulations can strain their financial resources.

3. RESEARCH METHODOLOGY

This study employs a secondary data analysis approach, drawing insights from existing literature and reports to evaluate the impact of GST on women entrepreneurs. Secondary data sources include academic journals, government publications, industry reports, and statistical databases. The methodology involves a comprehensive review of these sources to synthesize information on the financial performance of women-led businesses under the GST regime.

4. IMPACT OF GST ON FINANCIAL PERFORMANCE

A. Effect on Cost Structures

The introduction of GST significantly impacts the cost structures of businesses by altering how taxes are accounted for and managed. One of the primary effects is the ability to claim input tax credits, which allows businesses to offset the tax paid on inputs against their GST liability on sales (Narayan & Sharma, 2020). This mechanism reduces the overall cost burden of taxation on businesses by enabling them to recover taxes that would otherwise be embedded in their cost structures.

Research by Goolsbee (2000) highlights that GST's ability to provide input tax credits helps reduce tax cascading, where tax is levied on tax. This reduction leads to lower effective tax rates on goods and services, positively affecting cost structures. However, for businesses with complex supply chains, the initial setup and ongoing compliance requirements to track and claim these credits can be cumbersome and costly (Bird & Gendron, 2014).

For women entrepreneurs, who often operate smaller businesses with fewer resources, the administrative burden associated with managing input tax credits can be particularly challenging. According to Mohan and Kaur (2019), the complexity of GST regulations and the need for precise record-keeping can disproportionately affect small businesses, potentially leading to higher relative compliance costs and impacting their overall cost structures.

B. Profitability and Cash Flow Management

GST's impact on profitability and cash flow management is multifaceted. On one hand, the ability to claim input tax credits can enhance profitability by reducing the cost of inputs (Siddiq, 2017). This is particularly beneficial for businesses that rely heavily on purchased goods and services, as it helps to lower the cost of production and improve profit margins.

However, the implementation of GST can also create cash flow challenges. The timing of GST payments and claims can lead to cash flow issues, especially if there is a delay in receiving input tax credits or if businesses face challenges in managing their GST liabilities (Sinha, 2019). For small and medium-sized enterprises (SMEs), which may have limited financial buffers, these cash flow issues can be more pronounced, affecting their ability to manage day-to-day operations and invest in growth opportunities (Mohan & Kaur, 2019).

A study by Jain and Singh (2018) emphasizes that while GST provides opportunities for better cash flow management through tax credits, the transition period can be difficult. SMEs, including those led by women, may experience cash flow disruptions during the adjustment phase, impacting their financial stability and profitability.

C. Operational Efficiency

GST can influence operational efficiency in several ways. On one hand, GST's simplified tax structure aims to streamline tax processes and reduce administrative burdens. This simplification can enhance operational efficiency by reducing the complexity associated with multiple tax regimes and improving the ease of tax compliance (Chatterjee, 2020).

However, the implementation of GST requires businesses to adapt to new accounting systems and compliance procedures. For smaller businesses and those with limited resources, this adaptation can involve significant investments in new technology and training (Bird & Gendron, 2014). The initial costs of these adjustments can impact operational efficiency in the short term, although they may lead to greater efficiency and reduced long-term compliance costs.

Research by Brush and Cooper (2012) suggests that women entrepreneurs may face particular challenges in achieving operational efficiency under GST due to their typically smaller scale of operations and limited resources. The need for specialized accounting systems and the complexity of GST compliance can strain their operational capacities, potentially affecting their overall efficiency and competitiveness.

5. CHALLENGES AND OPPORTUNITIES

A. Compliance Costs

Compliance costs associated with GST can be significant, particularly for small and medium-sized enterprises (SMEs) and women entrepreneurs. These costs encompass a range of expenditures, including the implementation of new accounting systems, training for staff, and ongoing administrative tasks required to meet GST obligations (Bird & Gendron, 2014).

According to Mohan and Kaur (2019), SMEs often face higher relative compliance costs compared to larger firms due to their smaller scale and limited resources. The complexity of GST regulations requires substantial investment in accounting infrastructure and expertise, which can strain the financial and operational capacities of smaller businesses. Women entrepreneurs, who frequently operate businesses with fewer resources, are particularly affected by these increased costs. The administrative burden associated with GST compliance can divert resources away from core business activities, impacting overall business performance (Jain & Singh, 2018).

Additionally, the transition to GST can involve significant upfront costs for software and training, which can be a barrier for new or small businesses. This initial financial strain can be particularly challenging for women-led businesses, which may have less access to capital and financial support (Carter & Shaw, 2006).

B. Tax Credits and Benefits

One of the key benefits of GST is the availability of input tax credits, which allow businesses to recover the tax paid on inputs used in the production of goods and services. This system aims to reduce the tax burden by ensuring that tax is levied only on the value added at each stage of production (Narayan & Sharma, 2020). For businesses that are able to effectively manage and claim these credits, GST can lead to significant cost savings and improved cash flow.

However, the ability to claim these credits depends on the accurate and timely reporting of transactions, which requires robust accounting systems and practices (Goolsbee, 2000). For women entrepreneurs and SMEs, implementing and maintaining these systems can be challenging, given their typically limited resources and administrative capacities. The potential for errors in claiming credits or delays in processing can also impact cash flow and financial stability (Mohan & Kaur, 2019).

Despite these challenges, successful management of input tax credits can enhance financial performance by lowering effective tax rates and improving profitability. Women entrepreneurs who can navigate these complexities may benefit from reduced operational costs and greater financial flexibility (Jain & Singh, 2018).

C. Impact on Business Growth

GST can influence business growth in several ways. On the positive side, the introduction of GST can contribute to business growth by fostering a more transparent and efficient tax environment. The elimination of tax cascading and the facilitation of input tax credits can lower operational costs and enhance competitiveness (Goolsbee, 2000). This improved efficiency can provide opportunities for expansion and increased market participation.

However, the initial compliance costs and administrative burdens associated with GST can present obstacles to growth, particularly for smaller businesses and those with limited resources. The need for investment in new systems and processes can divert resources away from growth-oriented activities, such as marketing and expansion efforts (Bird & Gendron, 2014). For women entrepreneurs, who may already face barriers to business growth, these additional challenges can exacerbate existing difficulties and slow down their growth trajectories (Carter & Shaw, 2006).

Research by Brush and Cooper (2012) suggests that while GST has the potential to support business growth through greater efficiency and transparency, its impact on women-led businesses may vary depending on their ability to manage compliance costs and leverage tax benefits effectively.

D. Strategies for Effective GST Management

To mitigate the challenges and capitalize on the opportunities presented by GST, businesses can adopt several strategies for effective GST management:

1. **Investing in Accounting Systems:** Implementing robust accounting and tax management systems can streamline GST compliance, reduce errors, and improve the efficiency of tax reporting and credit claims (Slemrod & Bakija, 2008). Investing in technology and training can help businesses manage their GST obligations more effectively and reduce the administrative burden.
2. **Leveraging Tax Credits:** Businesses should ensure they are fully aware of and can effectively utilize available input tax credits. This involves maintaining accurate records of

transactions and understanding the eligibility criteria for credits (Narayan & Sharma, 2020). Consulting with tax professionals can also help in optimizing the benefits of GST credits.

3. **Adopting Best Practices:** Businesses can adopt best practices for GST compliance, such as regular audits, staff training, and staying updated on changes in GST regulations. This proactive approach can help mitigate compliance risks and ensure accurate reporting (Goolsbee, 2000).
4. **Seeking Financial Assistance:** For women entrepreneurs and SMEs, accessing financial assistance or support programs can alleviate some of the financial pressures associated with GST compliance. Government grants, subsidies, and support programs aimed at small businesses can provide necessary resources and reduce the impact of compliance costs (Carter & Shaw, 2006).

6. CONCLUSION

A. Conclusion

This study provides an in-depth examination of the influence of Goods and Services Tax (GST) on the financial performance of women entrepreneurs. The analysis reveals that while GST introduces several advantages, including the potential for reduced input costs and improved financial transparency, it also presents significant challenges, particularly for small and medium-sized enterprises (SMEs) and women-led businesses.

The primary findings indicate that GST's ability to offer input tax credits can lower effective tax rates and enhance profitability. However, the complexity of compliance requirements and the associated costs can be burdensome, particularly for businesses with limited resources. Women entrepreneurs, who often manage smaller businesses with fewer financial buffers, may face greater challenges in adapting to GST regulations. The compliance costs, including investments in accounting systems and staff training, can strain their resources and impact operational efficiency.

The study highlights that while GST aims to streamline the tax system and improve overall efficiency; its implementation requires careful management to avoid adverse effects on cash flow and profitability. Women entrepreneurs who successfully navigate these complexities can benefit from the reduced tax burden and enhanced financial flexibility offered by GST.

B. Policy Recommendations

To address the challenges identified and support women entrepreneurs in maximizing the benefits of GST, the following policy recommendations are proposed:

1. **Simplification of Compliance Requirements:** Simplifying GST compliance requirements can help reduce the administrative burden on small businesses and women entrepreneurs. This includes streamlining reporting processes, reducing the frequency of filings, and providing clear and accessible guidelines on claiming input tax credits. Simplification can make GST compliance more manageable and less costly (Bird & Gendron, 2014).
2. **Financial Support and Incentives:** Providing targeted financial assistance or incentives can help offset the initial costs of GST compliance. This support could include grants for upgrading accounting systems, subsidies for training programs, and financial assistance for small businesses to manage the transition to GST (Carter & Shaw, 2006). Such measures can alleviate some of the financial pressures associated with GST and encourage more effective compliance.
3. **Training and Education Programs:** Developing and offering training programs specifically tailored to the needs of small businesses and women entrepreneurs can improve GST compliance and management. These programs should focus on practical aspects of GST, including accounting practices, tax credit claims, and regulatory updates. Enhanced education and training can help businesses navigate GST complexities more effectively (Slemrod & Bakija, 2008).
4. **Support Networks and Resources:** Establishing support networks and resources for women entrepreneurs can provide valuable assistance in managing GST-related challenges. Mentorship programs, advisory services, and industry-specific resources can offer guidance and support, helping women-led businesses overcome barriers and leverage the benefits of GST (Brush & Cooper, 2012).

C. Future Research Directions

Future research on the impact of GST on women entrepreneurs could explore several areas to provide deeper insights and inform policy improvements:

1. **Longitudinal Studies:** Conducting longitudinal studies to track the long-term effects of GST on business performance and growth can offer a more comprehensive understanding of its sustained impact. This approach can reveal

how GST influences financial outcomes and business development over time.

2. **Sector-Specific Analysis:** Investigating the impact of GST on specific sectors where women entrepreneurs are prominent can provide a more detailed understanding of how GST affects different industries. Sector-specific research can identify unique challenges and opportunities associated with GST in various business contexts.
3. **Comparative Studies:** Comparing the impact of GST across different countries with diverse GST implementations and support mechanisms can offer valuable insights and best practices. Comparative research can help identify effective strategies and policies that can be adapted to improve GST management for women entrepreneurs in different settings.
4. **Impact of Technological Advancements:** Exploring how technological advancements and digital tools can assist businesses in managing GST compliance more efficiently can inform future strategies for reducing administrative burdens. Research in this area can highlight innovative solutions that improve GST management and enhance business performance.

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Corresponding Author

Mamta Jaisiyan*

Associate Professor, Department of Commerce,
D.J. College, Baraut, Baghpat, UP, India

Email: mjaisiyan7@gmail.com